

# **DIVISION OF ACCOUNTS AND REPORTS POLICY AND PROCEDURE MANUAL**

Revision Date 10/19/98

Filing Number 9,103

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## **SUBJECT**

EMPLOYEE USE FUNDS

## **PURPOSE**

To provide procedures for establishing, operating and reporting on agency employee use funds.

## **AUTHORITATIVE REFERENCE**

K.S.A. 75-3080 and K.S.A. 75-3081

## **GENERAL INFORMATION**

1. *Establishment of employee use funds* – Any state agency may apply to the Director of Accounts and Reports for an employee use fund, which shall not be part of the state treasury. An application form must be submitted for approval to the Director of Accounts and Reports (see attached Exhibit A).
2. *Custodian of funds* – The administrative officer of a state institution shall appoint a custodian of the employee use fund. Responsibilities of the custodian include establishing internal controls over the moneys of these funds and maintaining the accounting records prescribed by the Director of Accounts and Reports.

The generally accepted accounting principles of internal check (separation of cashiering, bookkeeping, and reconciling functions) should be adopted wherever possible. For example, the custodian designated (cashier) should be responsible for collecting or accepting cash, issuing receipts to the depositor, depositing or investing moneys in accounts of financial institutions, and drawing checks on such accounts. A separate accountant or bookkeeper should be responsible for recording deposit records, control ledger, and employee use records; while a third employee accountant or a account clerk should be responsible for regularly reconciling the checkbook and savings balance (s) to the ledger account, etc.

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3. *Accounting records* – Appropriate records are required to record the funds transactions and provide a detailed account of its operations in accordance with generally accepted accounting principles. Where appropriate, the following should be identifiable in the funds records:

Cash on hand	Sales
Cash in bank	Donations
Accounts receivable	Cost of Sales
Inventory	Depreciation
Equipment	Miscellaneous
Accumulated depreciation	Rent
Accounts payable	Repairs and Maintenance
Retained earnings	Supplies
Contributed Capital	

4. *Reporting requirements* – The custodian of each employees use fund shall prepare a statement of Revenues, Expenditures and Changes in Fund Balance or an income statement and balance sheet for the fund for the fiscal year just ended at June 30. One copy of the report is to be forwarded to the Division of Accounts and Reports, Central Accounting Services Section by July 25.

The financial statements should indicate the accounting methods used for computing depreciation and valuing inventory. The preferred methods are straight-line for depreciation and LIFO (last-in, first-out) for inventory, but agencies may select any of the generally accepted methods most suitable for their needs.

5. *Deposits and expenditures* – Moneys of employees use funds should be deposited in an account of a bank, savings and loan association, or federally chartered savings bank, which bank, savings and loan association or savings bank is insured by the federal government or an agency thereof, or invested in a credit union which is insured with an insurer or guarantee corporation as required under K.S.A. 17-2246. All disbursements must be by check from the fund bank account, and each check must be signed by the custodian or alternate.

An employee use fund will be subject to exactly the same federal income tax treatment as the state agency to which it is attached. State agencies are not subject

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to federal income tax except for limited application of the unrelated business income tax (UBIT) to state universities. Moneys in an employee use fund administered by a state university are subject to taxation depending on how they are currently treating the same sources of money. It will be responsibility of the agency to report and remit any tax liability.

Benefits distributed to employees through an employee use fund should only be *de minimis* fringe benefits which are not required to be reported as income to the employee nor to have tax withheld. Items such as sending flowers on the death of an employee, sending special occasion cards or get well cards, sponsoring employee appreciation events, giving out small tokens in recognition of good work and employee of the month awards are considered *de minimis* fringes. *Benefits should not be in the form of cash or cash equivalents* (gift certificates). In general, these will not be considered *de minimis* by the Internal Revenue Service.